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Pirate of Prague Invokes Napoleon, Mandela as He Denies Fraud

By David Glovin - Oct 01, 2008

Oct. 1 (Bloomberg) -- Perched barefoot at a bamboo desk in his bedroom in the Bahamas, Viktor Kozeny spends 12 hours a day at his computer.

He writes to the lawyers who are battling his extradition to the U.S. on charges of bribery, helps map strategy in a London lawsuit brought by former investors and updates his Facebook page with ideas for inventions using alternative energy. To relax, he swims in the blue-green waters of the Caribbean that lap onto a beach in his backyard.

The life of a fugitive is tough, Kozeny says during three days of interviews at his $29 million estate in July. ``I feel a little like Napoleon sent to St. Helena,'' the 45-year-old Czech native says of his life in the Bahamas, which he hasn't left since 1999.

``Havel was jailed,'' he says of the former Czech president. ``People would have laughed if they saw him as a president.'' He rattles off the names of other famous figures who've been imprisoned: ``Nelson Mandela. Alexander Solzhenitsyn.'' Kozeny says he plans to clear his own name and run for the European Parliament by 2014.

Prosecutors would like to thwart Kozeny's political ambitions and send him to jail. New York District Attorney Robert Morgenthau says Kozeny stole $182 million from Americans who invested in his 1998 bid to win control of an oil company in the former Soviet republic of Azerbaijan.

U.S. Attorney Michael Garcia in New York says Kozeny offered millions of dollars in bribes to Azeri leaders to cement the acquisition. Czech prosecutors, meanwhile, are presenting evidence to a court that is trying Kozeny in absentia on charges of embezzling $1.1 billion from mutual funds he established in the early 1990s.

Extradition Bid

The U.S. came close to extraditing Kozeny: The so-called Pirate of Prague spent 19 months in a maximum security cell in the Bahamas' Fox Hill prison fighting extradition until a Bahamian judge ruled last year that Kozeny wasn't subject to American anti- bribery laws and ordered his release.

Now under a Bahamian court order not to leave the island nation, Kozeny says he's broke. He spends a lot of his time surfing the Internet for research to back his energy project.

``There's the science, there's the litigation, and that's pretty much it,'' he says, between sips of chilled water in his study.

Like other international fugitives, including the late Robert Vesco or Jacob ``Kobi'' Alexander, the former chief executive officer of Comverse Technology Inc. who fled to Namibia in 2006 rather than answer U.S. options-backdating charges, Kozeny is paying a price for his freedom.

`Golden Cage'

``They build themselves a golden cage,'' says Howard Safir, who was chief of operations for the U.S. Marshals Service from 1984 to '90 before becoming New York City police commissioner in '96. Safir led a failed effort in the '80s to extradite financier Marc Rich from Switzerland for tax evasion. Rich, 73, who was never tried, was pardoned by President Bill Clinton in 2001.

``A lot of people end up spending all their money keeping their freedom,'' says Safir, who's now CEO of security consulting firm SafirRosetti, a unit of New York-based GlobalOptions Group Inc. ``There's constant pressure.''

One organization applying pressure on Kozeny is the Washington- based Government Accountability Project, or GAP, a public interest group that defends corporate and government whistle-blowers.

`He Claims Poverty'

Steven Tullberg, a GAP investigator, says he suspects the Czech stashed millions of dollars around the globe and secretly controls millions more through family-run trusts.

``He claims poverty, which makes everyone laugh,'' Tullberg says. GAP has spent two years tracking hundreds of offshore accounts in Cyprus, Liechtenstein, Grenada and a dozen other tax havens. ``When you try to identify assets, you run up to dead ends,'' Tullberg says.

International banking laws have loopholes that Kozeny and others like him easily exploit, says Louis Clark, president of GAP, which is lobbying for changes in banking laws.

``Anyone can do it if they have a good memory and they're unscrupulous,'' says Clark, a lawyer and former Methodist minister. ``Only a very strong government might be able to get to the bottom of what this is all about.''

Kozeny's existence today is far less glamorous than the one he led a decade ago, when he spent 13,000 pounds ($22,950) on dinner at London's Le Gavroche and jetted around the world in a private Challenger 601-3R.

Ostracized by Neighbors

His blond hair is thinning and his 6-foot-2-inch (188- centimeter) frame has expanded to 230 pounds (104 kilograms).

Kozeny rarely sees his four daughters from three failed marriages. He lives with his mother and says he's ostracized by some neighbors in Lyford Cay, the exclusive gated community where he resides.

He says he's being persecuted by unidentified U.S. politicians and wrongly accused by Leon Cooperman's Omega Advisors Inc., which manages a $6 billion hedge fund, and American International Group Inc., whose 1999 fraud lawsuit against Kozeny led a U.K. judge to freeze $177 million of his assets. (In September, AIG was taken over by the U.S. government amid financial market turmoil.)

``It's ruined the best, most productive part of my life -- professionally, socially, financially, family life,'' Kozeny says of the court cases. ``It's a little like being hit by a truck.''

Kozeny hopes the recent court rulings against U.S. prosecutors will lead them to dismiss criminal charges. For now, he says, his, his family's and trust assets are depleted, after losses in Russia's 1998 stock market collapse and in Azerbaijan and the Czech Republic.

`An Enormous Hit'

His house, called Turnstar, is pledged to lawyers to cover vast legal fees, and his planes and homes in Aspen and London have been sold. The water in Turnstar's $13 million pool is murky.

``We took an enormous hit in Azerbaijan,'' Kozeny says. ``Through this litigation, we took another giant hit.''

Kozeny denies that he's concealing money. ``There's nothing to hide,'' he says. Asked what he's lived on for the past nine years, how he's paid an army of lawyers and how his mother, Jitka Chvatik, 68, can afford to spend half the year in Monaco, he says his mother has partially paid his way.

She used money from family trusts of which she is the beneficiary and which was earned legitimately in the Czech Republic.

``There's no pot of gold,'' he says.

Kozeny, at age 19, moved to the U.S. in 1982 after fleeing communist Czechoslovakia as a teenager. He went to New Mexico to study physics, boarding with a family. He then ran off with the 37- year-old wife, whom he later married. They divorced in 1986.

Harvard Degree

He attended Harvard University in Cambridge, Massachusetts, and graduated with an economics degree in 1989.

``My goal was to become the best investment banker in the world,'' Kozeny says.

He joined London-based investment bank Robert Fleming Holdings Ltd. for six months and then returned to Prague, the city of his birth, in March 1990, four months after Vaclav Havel led the Velvet Revolution that overthrew communist rule. With what Kozeny says was $3,000 from his grandfather, he launched a fund company named Harvard Capital & Consulting.

The newly capitalist country had begun issuing vouchers for $35 that its citizens could exchange for shares of companies it was privatizing.

Using a Western-style media campaign, Kozeny convinced a million Czechs to deposit their vouchers with him so he could invest on their behalf. Kozeny's funds amassed enough vouchers to control more than 15 percent of the Prague stock market, with stakes in dozens of Czech companies including bank Komercni Banka AS and brewery Plzensky Prazdroj AS, maker of Pilsner Urquell.

Hidden Value

``If you want to call me the architect of privatization, so be it,'' he says. ``I saw the hidden value.''

He says the Harvard funds earned hundreds of millions of dollars through management fees of up to 7 percent and a brokerage fee of 1 percent. He later earned around $50 million through investments in Russia and the Ukraine.

The market value of Kozeny's funds reached about 40 billion Czech koruna (then $1.4 billion) in December 1994, more than 30 times the original value of the vouchers he'd collected.

Czechs who cashed out after the first year made up to 18 times their investment, he says. Hundreds of thousands who waited didn't, and the funds collapsed, leaving them with hundreds of millions of dollars in losses.

Exile

In 1994, Kozeny left the country, took Irish citizenship and settled in the Bahamas, where there's no income tax. He says old- guard communists forced him to flee after he challenged their hold on the Czech economy.

``I am absolutely in exile,'' says Kozeny, who has renounced his Czech citizenship. ``I came here as a result of political pressures.''

Czech prosecutors offer another reason for his departure -- and the funds' collapse.

According to 2001 Czech criminal charges, Kozeny and a Harvard director, Boris Vostry, stripped the Harvard funds of assets worth 16 billion koruna by selling them at steep discounts to offshore vehicles they controlled.

Their trial in absentia is the largest white-collar crime case in Czech history, says Pavla Koppova, deputy chief of the Czech Republic's Havana embassy, which oversees the country's relations with the Bahamas. A Czech request for Kozeny's return hasn't been acted upon by Bahamian authorities.

`Total Rubbish'

``It's total rubbish,'' Kozeny says of the case. He acknowledges that he helped friends and partners, including American expatriate Michael Dingman, former president of automated controls maker AlliedSignal Inc., gain control of Czech companies. But he says the asset sales were at market prices and approved by regulators.

He says it was Vostry and an accomplice who made off with much of the money lost by the Czech investment funds. Vostry, who lives in Belize, is charged with fraud and being tried in absentia with Kozeny. Vostry didn't respond to e-mails and phone messages seeking comment.

By 1997, Kozeny was again scouting Eastern Europe for investments when Azerbaijan, a former Soviet republic that had pledged to sell state assets, caught his eye.

The State Oil Co. of the Azerbaijan Republic, or Socar, was up for sale at a price that vastly undervalued its reserves, Kozeny says. He figured he could win control of the company, then sell it in a public offering for billions of dollars.

Azerbaijan Scheme

Kozeny also began talking to investors who could back his project. ``He described how privatization was taking place throughout Eastern Europe,'' Frederic Bourke, co-founder of handbag maker Dooney & Bourke and one of Kozeny's investors, told a state grand jury in Manhattan in 2002. ``He said it was a unique opportunity.''

Foreigners were allowed to buy Azerbaijan's privatization vouchers if they also bought a corresponding number of options from the government.

Kozeny set up British Virgin Islands-registered, Baku-based Oily Rock Group Ltd. to invest. Besides Bourke, he signed on money manager Aaron Fleck and Bourke's friend, former U.S. Senate Majority Leader George Mitchell, a Maine Democrat.

Kozeny also attracted institutions that wanted help buying their own vouchers and options. Among them were units of Omega, which gave Kozeny $126 million, and AIG, the world's biggest insurer, and Columbia University, both of which put up $15 million.

Investors Sue

Azerbaijan never sold Socar, and in late 1999 Omega, AIG and Columbia sued Kozeny in London for fraud, claiming he charged them $25 apiece for options that cost him 40 cents.

They said Kozeny used their investments to pay off loans to Russia's Alfa Bank and to a Cyprus-based company he partially controlled, Daventree Ltd., taking millions more for himself.

With losses topping $100 million, Omega and AIG won a U.K. judge's ruling freezing Kozeny's assets. A hearing is scheduled for January.

``We were stolen from,'' Bourke told the grand jury. ``A hundred million bucks.''

Kozeny admits the scheme was crooked, but not in the way the investors claim. In response to the London lawsuit, he said his investors knew he'd agreed to secure the deal by giving Azerbaijan's then president, Heidar Aliyev, and other Azeri leaders a secret two- thirds interest in Socar and millions of dollars in cash that he'd been flying into the country.

Under U.K. law, the investors may lose their case if Kozeny proves they acted unethically by joining his bribery plot.

Corruption

``All very well knew that the deal was corrupt,'' says Kozeny, who says he wasn't subject to the U.S. anti-bribery law in 1998. ``Who in their sound mind would otherwise fly $200 million in cash to the world's third-most-corrupt country?''

Transparency International ranked Azerbaijan 150th out of 179 nations on its 2007 Corruption Perceptions Index and third from the bottom in 1999. Azerbaijan's U.S. consul general, Elin Suleymanov, denies wrongdoing by the government in the deal.

Still, Kozeny denies stealing his investors' money. He says the options his investors were buying for $25 apiece were coming from the Azeri leaders' personal stock and the investors knew their cash served as payoffs. Money from the deal went into the Azeris' pockets, not his, he says.

``I strongly believe that right is on my side,'' Kozeny says.

Kozeny's problems mounted. After the London lawsuit, he was charged in 2001 in the Czech Republic over the Harvard funds' collapse. Manhattan prosecutors in 2003 filed charges accusing him of stealing from U.S. investors in the Socar deal. Federal prosecutors brought the bribery case in 2005.

More Lawsuits

Kozeny has also been ensnared in creditor lawsuits in Colorado, New York and Cyprus.

While a U.K. judge called Kozeny's account of the Socar bribery ``colorful,'' part of it has been proven true.

Thomas Farrell, who was Kozeny's American aide, pleaded guilty to conspiracy and bribe-paying in 2003, as did Clayton Lewis, the Omega executive who oversaw the firm's investments, in 2004. Kozeny's Swiss lawyer, Hans Bodmer, pleaded guilty to a money- laundering conspiracy in 2004.

All three are cooperating with U.S. prosecutors. They've yet to be sentenced. In a twist, the U.S. also accused Bourke, 61, of joining Kozeny's bribery scheme.

Bourke and other investors deny knowing of bribes. ``We did our due diligence, and it didn't indicate that there was any wrongdoing,'' Fleck, 87, says.

`Shocked' at 'Betrayal'

Omega said the firm wasn't aware the Lewis had agreed to pay bribes. ``We were shocked and dismayed at Lewis's betrayal,'' Omega said in a statement. The firm paid a $500,000 fine to the U.S. government last year.

Mitchell's executive assistant, Ann Ungar, says the former senator had no knowledge of secret payments.

AIG spokesman Michael Arcaro declined to comment for this story, as did Bodmer, Bourke, Farrell and Lewis.

GAP investigators, whose Washington office is filled with flowcharts and files that track the various arms of Kozeny's companies, say their investigation is being bankrolled by Bourke.

The handbag entrepreneur, in New York criminal court documents from 2005, says it was he who first brought evidence of Kozeny's fraud to Manhattan DA Morgenthau, back in 2002. GAP's Clark and Tullberg say Bourke is a whistle-blower, not a criminal.

Kozeny illustrates how easily con men can hide their holdings, GAP says. He bought hundreds of shell companies, with prepackaged bylaws and nominal boards of directors, in locales where the law bestows secrecy on corporate owners, Tullberg and fellow investigators Kevin Kenety, Jesse Kotarba and Beatrice Edwards say.

Transferring Assets

Kozeny would transfer assets between companies, pledge one company's holdings to guarantee a loan to another or put one firm under another's control, GAP says.

Everything Kozeny owned -- his homes, aircraft and even his telephones -- was held in the name of private companies such as Grenada-based Blue Lagoon Real Estate, Turks and Caicos Islands- based Landlocked Shipping and Cyprus-based Harms Holding.

That made the assets unreachable by creditors, the investigators say. ``The systems he used are astonishing in their impenetrability,'' Tullberg says.

On a Friday in July, Kozeny is behind the wheel of his brown 2005 Ford Mustang, the air conditioning blasting, to show a visitor his former home: Fox Hill prison. The Bahamian jail was criticized by Amnesty International in 2003 for overcrowding and violence.

`Fox Hell' Prison

``We call it Fox Hell,'' says Paul Moss, Kozeny's lawyer. Cells in the maximum security wing, where Kozeny was held, lack plumbing, ventilation and adequate light, Moss says.

Kozeny says he sometimes spent four straight days inside his cell, which measured 6 feet by 9 feet. He says he contracted pneumonia and nearly died while there. ``You can't imagine the heat,'' he says.

Fox Hill Superintendent Elliston Rahming says Kozeny was treated humanely. Kozeny was allowed out in the yard daily and had a large electric fan in front of his cell.

``This is not a hotel,'' Rahming says. ``It is a long walk from Lyford Cay to Fox Hill.''

Kozeny passed his days by reading or by writing to his lawyers, penning some 4,000 pages. In his isolation, he began exploring a theory of why prosecutors are after him: Investors in his Socar deal were using some money from U.S. government officials, whose identities he doesn't yet know, he says. He says those officials are using the criminal cases to exact retribution for the deal's collapse.

``It's payback,'' Kozeny says.

Kozeny also conceived his next business venture while behind Fox Hill's walls. He wants to produce appliances, paint and wallpaper that have microscopic energy converters embedded in them.

Nanowatts

Billions of such converters will transform sunlight, heat and vibrations into nanowatts of electricity, which will be conveyed via wireless transmissions to a household ``smart grid.'' The grid will power coffee makers, washing machines and computers.

He says the nanoconverters could be embedded in highway surfaces, generating power for whole communities. ``Each appliance is going to be a micropower plant,'' he says.

Lacking a lab, Kozeny says he researches the science behind his plan on the Web sites of Stanford University in Palo Alto, California, and other schools. He sketches out concepts on his Facebook Inc.

page on the Internet and hopes to attract corporate partners.

``Physics is my life,'' he says. ``I know more mathematics and physics than any businessman, and I know more law and business than any scientist.''

For now, though, micropower is only a theory, just like Kozeny's allegation that U.S. politicians are behind his troubles. The former Pirate of Prague, hounded and exiled to a gilded cage, has plenty of time to elaborate on them.

``I could be sitting here any number of years,'' he says.

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